

Ashley Valley Water & Sewer Improvement District
Uintah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2005

Ashley Valley Water & Sewer Improvement District
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December 31, 2005

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AICPA Division for CPA Firms:
Private Companies Practice Section

INDEPENDENT AUDITOR'S OPINION ON FINANCIAL STATEMENTS

Board of Trustees
Ashley Valley Water and Sewer Improvement District
Vernal, Utah

I have audited the accompanying general purpose financial statements of Ashley Valley Water and Sewer Improvement District (the District) as of December 31, 2005 and 2004, and for the years then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Ashley Valley Water and Sewer Improvement District at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 19, 2006, on my consideration of Ashley Valley Water & Sewer Improvement District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis (please refer to the table of contents for page numbers) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

McNeil Duncan
June 19, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Ashley Valley Water & Sewer Improvement District
Management's Discussion and Analysis
December 31, 2005

As management of Ashley Valley Water & Sewer Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

- * Total net assets for the District increased by \$1,008,739.
- * Total unrestricted net assets for the District increased by \$537,540.
- * Total assets increased by \$524,086.
- * Total liabilities decreased by \$484,653.

BASIC FINANCIAL STATEMENTS

The District is a special-purpose government engaged in business-type activities. All transactions related to its activities are recorded in a single enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges.

The financial statements presented in this report are those required of an enterprise fund and consist of (1) the statement of net assets, (2) the statement of revenues, expenses, and changes in net assets, (3) the statement of cash flows, and (4) the notes to the financial statements.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. However, other non-financial factors need to be considered as well.

The statement of revenues, expenses, and changes in net assets (the income statement) presents information about the amounts of revenues, expenses, and resulting net income for the year. Net income is the change in net assets. All items of income and expense are reported as soon as the underlying event giving rise to those items occurs, regardless of the when cash is received or paid.

The statement of cash flows starts with the amounts of net income and removes the non-cash portion (the receivables and payables which did not provide or use cash), thus converting the amounts to a cash basis.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District.

Ashley Valley Water & Sewer Improvement District
Management's Discussion and Analysis
December 31, 2005

FINANCIAL ANALYSIS

Ashley Valley Water & Sewer Improvement District's Net Assets

	Current Year	Previous Year	Change
Current and other assets	\$ 4,938,585	4,866,426	72,159
Capital assets	<u>16,304,614</u>	<u>15,852,687</u>	451,927
Total assets	<u>21,243,199</u>	<u>20,719,113</u>	<u>524,086</u>
Long-term liabilities	2,720,000	3,384,000	(664,000)
Other liabilities	<u>946,419</u>	<u>767,072</u>	179,347
Total liabilities	<u>3,666,419</u>	<u>4,151,072</u>	<u>(484,653)</u>
Net assets:			
Invested in fixed assets, net of debt	12,920,614	11,913,687	1,006,927
Restricted	1,720,012	2,255,741	(535,728)
Unrestricted	<u>2,936,153</u>	<u>2,398,613</u>	537,540
Total net assets	<u>\$17,576,779</u>	<u>16,568,041</u>	<u>1,008,739</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Assets exceeded liabilities at the close of the year by \$17,576,779, an increase from the previous year of \$1,008,739.

Total unrestricted net assets at the end of the year are \$2,936,153, which represents an increase of \$537,540 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amount of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Ashley Valley Water & Sewer Improvement District
Management's Discussion and Analysis
December 31, 2005

FINANCIAL ANALYSIS (continued)

Ashley Valley Water & Sewer Improvement District's Changes in Net Assets

	<u>Current Year</u>	<u>Previous Year</u>	<u>Change</u>
Operating income:			
Service income	\$1,727,838	1,727,474	364
Other operating income	<u>266,037</u>	<u>157,637</u>	<u>108,400</u>
Total operating income	<u>1,993,875</u>	<u>1,885,111</u>	<u>108,764</u>
Operating expenses:			
Depreciation expense	635,393	627,844	7,549
Other operating expense	<u>1,590,517</u>	<u>1,248,687</u>	<u>341,830</u>
Total operating expense	<u>2,225,910</u>	<u>1,876,531</u>	<u>349,379</u>
Net operating income (loss)	<u>(232,034)</u>	<u>8,581</u>	<u>(240,615)</u>
Non-operating items:			
Revenues	1,330,348	1,060,559	269,790
Expenses	<u>(89,575)</u>	<u>(127,608)</u>	<u>38,033</u>
Total net non-operating items	<u>1,240,773</u>	<u>932,951</u>	<u>307,822</u>
Net income (loss)	<u>\$1,008,739</u>	<u>941,532</u>	<u>67,207</u>

Service income increased by \$364 over the previous year. Other operating income increased by \$108,400. Most of the decrease is due to the decrease in connection fees. Connection fees are recognized as income when the physical service is installed, and most were installed in the previous year.

Depreciation expense is the largest single element of operating costs and increased over the amount of the previous year by \$7,549. Other operating expenses increased by \$341,830 compared to the previous year, as a result of the decrease in costs of connections as described above.

The net operating income decreased by \$240,615 compared to last year, resulting in a yearly net operating loss of \$232,034.

Non-operating items increased by \$307,822 compared to the previous year.

Ashley Valley Water & Sewer Improvement District
Management's Discussion and Analysis
December 31, 2005

BUDGETARY HIGHLIGHTS

The District operates as an enterprise fund, and is required to comply with the operating budget on an entity-wide basis. There were no budget amendments during the year. Revenues exceeded the amount budgeted and expenses were less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Ashley Valley Water & Sewer Improvement District's Capital Assets
(net of depreciation)

	Current Year	Previous Year
Net Capital Assets:		
Land and rights of way	\$ 330,947	330,947
Water rights	178,129	178,129
Buildings and structures	240,442	249,333
Water system	6,938,450	7,271,509
Sewer system	6,865,598	7,065,793
Machinery and equipment	627,637	503,784
Construction in progress	<u>1,123,410</u>	<u>253,191</u>
Total	<u>\$16,304,614</u>	<u>15,852,687</u>

There was little change in capital assets during the year. Additional information may be found in the notes to financial statements.

Ashley Valley Water & Sewer Improvement District's Outstanding Debt

	Current Year	Previous Year
Water quality revenue:		
DWQ Sewer 1997	\$ 258,000	277,000
Community impact board revenue:		
CIB Water 1985	42,000	56,000
CIB Sewer 1992	162,000	180,000
CIB Water 1996	84,000	90,000
CIB Sewer 1997	202,000	215,000
CIB Water 1999	210,000	222,000
CIB Sewer 2001	316,000	333,000
CIB Sewer 2003	144,000	150,000
CIB Water 2004	1,281,000	1,281,000
General obligation:		
G.O. bond 1985	<u>685,000</u>	<u>1,135,000</u>
Total long-term debt	<u>\$3,384,000</u>	<u>3,939,000</u>

Principal was repaid on the bonds in the total amount of \$555,000. Additional information regarding the long-term liabilities may be found in the notes to the financial statements.

Ashley Valley Water & Sewer Improvement District
Management's Discussion and Analysis
December 31, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ashley Valley Water & Sewer Improvement District manager at 1344 W Hwy 40, Vernal, UT 84078.

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BASIC FINANCIAL STATEMENTS

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Ashley Valley Water & Sewer Improvement District
STATEMENT OF NET ASSETS
December 31, 2005

	Current Year	Previous Year
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,414,324	2,050,559
Receivables:		
Customer accounts	135,266	127,850
Property taxes	485,944	21,300
Other receivables	35,261	46,054
Inventory and prepaid assets	<u>38,796</u>	<u>35,745</u>
Total current assets	<u>3,109,590</u>	<u>2,281,507</u>
Non-current assets:		
Restricted cash and cash equivalents	1,777,966	2,516,003
Receivables due after one year	43,362	60,845
Deferred bond issue costs	7,667	8,071
Capital assets:		
Land and rights of way	356,285	356,285
Construction in progress	1,123,410	253,191
Capital assets, net of depreciation	<u>14,824,919</u>	<u>15,243,210</u>
Total non-current assets	<u>18,133,608</u>	<u>18,437,606</u>
Total assets	<u>21,243,199</u>	<u>20,719,113</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	214,554	161,200
Accrued interest payable	7,175	8,133
Deferred revenues	60,690	42,740
General obligation bonds, due currently	632,000	523,000
Revenue bonds, due currently	<u>32,000</u>	<u>32,000</u>
Total current liabilities	<u>946,419</u>	<u>767,072</u>
Non-current liabilities:		
General obligation bonds, net of current	190,000	685,000
Revenue bonds, net of current	<u>2,530,000</u>	<u>2,699,000</u>
Total non-current liabilities	<u>2,720,000</u>	<u>3,384,000</u>
Total liabilities	<u>3,666,419</u>	<u>4,151,072</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,920,614	11,913,687
Restricted for:		
Debt service	1,720,012	1,366,817
Impact fees	-	888,924
Unrestricted	<u>2,936,153</u>	<u>2,398,613</u>
Total net assets	<u>17,576,779</u>	<u>16,568,041</u>
Total liabilities and net assets	<u>\$21,243,199</u>	<u>20,719,113</u>

The notes to the financial statements are an integral part of this statement.

Ashley Valley Water & Sewer Improvement District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

	Current Year	Previous Year
OPERATING REVENUES		
Charges for services:		
Water service charges	\$ 1,086,922	1,109,908
Sewer service charges	640,916	617,516
Initial connection fees	222,982	139,909
Other operating revenues	<u>43,056</u>	<u>17,728</u>
Total operating revenues	<u>1,993,875</u>	<u>1,885,111</u>
OPERATING EXPENSES		
Operation and maintenance:		
Water treatment facility	219,250	152,220
Water distribution system	436,104	328,253
Sewer collection system	460,642	359,039
General plant	95,904	78,825
Insurance expense	133,786	113,530
Administrative expense	244,831	221,991
Depreciation expense	<u>635,393</u>	<u>627,844</u>
Total operating expense	<u>2,225,910</u>	<u>1,876,531</u>
Net income (loss) from operations	<u>(232,034)</u>	<u>8,581</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	148,447	77,331
Tax revenue	761,091	744,828
Impact fees	420,810	238,400
Grant revenue	-	-
Interest on long-term debt	<u>(89,575)</u>	<u>(127,608)</u>
Total non-operating revenue (expense)	<u>1,240,773</u>	<u>932,951</u>
Net income (loss)	1,008,739	941,532
Net assets, beginning	<u>16,568,041</u>	<u>15,626,509</u>
Net assets, ending	<u>\$17,576,779</u>	<u>16,568,041</u>

The notes to the financial statements are an integral part of this statement.

Ashley Valley Water & Sewer Improvement District
STATEMENT OF CASH FLOWS
For the year ending December 31, 2005

	Current Year	Previous Year
Cash flows from operating activities:		
Cash received from customers - service	\$2,032,685	1,944,686
Cash paid to suppliers	(974,715)	(768,271)
Cash paid to employees	(565,498)	(477,744)
Net cash provided (used) in operating activities	<u>492,472</u>	<u>698,671</u>
Cash flows from noncapital financing activities:		
Property tax received	296,447	927,187
Net cash provided (used) in noncapital financing activities	<u>296,447</u>	<u>927,187</u>
Cash flows from capital and related financing activities:		
Cash received from bond issues	-	1,281,000
Cash received from capital grants	-	-
Cash from impact fees	420,810	238,400
Cash payments for construction and acquisition of plant	(1,087,320)	(496,814)
Cash payments for long-term debt principal	(555,000)	(788,824)
Cash payments for long-term debt interest	(90,129)	(144,918)
Net cash provided (used) in capital and related financing activities	<u>(1,311,639)</u>	<u>88,844</u>
Cash flows from investing activities:		
Cash received from interest earned	148,447	77,331
Net cash provided (used) in investing activities	<u>148,447</u>	<u>77,331</u>
Net increase (decrease) in cash	(374,273)	1,792,033
Cash balance, beginning	4,566,562	2,774,528
Cash balance, ending	<u>\$4,192,289</u>	<u>4,566,562</u>
Cash reported on the balance sheet:		
Cash and cash equivalents	\$2,414,324	2,050,559
Non-current restricted cash	1,777,966	2,516,003
Total cash and cash equivalents	<u>\$4,192,289</u>	<u>4,566,562</u>

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The notes to the financial statements are an integral part of this statement.

Ashley Valley Water & Sewer Improvement District
STATEMENT OF CASH FLOWS (continued)
For the year ended December 31, 2005

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Current Year</u>	<u>Previous Year</u>
Net operating income (expense)	\$(232,034)	8,581
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:		
Depreciation and amortization	635,393	627,844
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	20,860	60,775
(Increase) decrease in inventory and prepayments	(3,051)	(2,110)
Increase (decrease) in accounts payable - operations	53,355	4,782
Increase (decrease) in deferred connections	<u>17,950</u>	<u>(1,200)</u>
Net cash provided in operating activity	<u>\$492,472</u>	<u>698,671</u>

The notes to the financial statements are an integral part of this statement.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Ashley Valley Water & Sewer Improvement District (the District) is a special district, located in Uintah County, Utah, organized for the purpose of providing culinary water service to the residents of the District. The District operates under the direction of a seven member Board of Trustees. All Trustees are elected by the residents of the District.

The District has no component units and is not a component unit of another entity.

1-B. Government-wide financial statements

Government-wide financial statements display information about the District as a whole. The financial statements presented are those required of an enterprise fund and consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged in business-type activities and records all of the transactions related to its activities in a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges. No fiduciary funds or components that are fiduciary in nature are included.

1-C. Measurement focus, basis of accounting, and financial statement presentation

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. The operating statement of an enterprise fund focuses on changes in, or the flow of, *economic* resources. With this measurement focus, all assets and liabilities associated with the operation of the fund, both current and non-current, are included on the statement of net assets. Thus, net assets (total assets less total liabilities) are used as a practical measure of economic resources.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. As a practical matter, a fund's basis of accounting is inseparably tied to its measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Under accrual accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and the State Treasurer's Investment Fund.

Investments for the District are reported at fair value. The State Treasurer's Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the value of the pool shares.

2. Receivables and payables

Monthly reviews are made of all past due accounts. Shut-off notices are issued on past due active accounts and the District has lien capability on unpaid accounts. Customer accounts reported are deemed collectible.

Property taxes are assessed and collected for the District by Uintah County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1-D. Assets, liabilities, and net assets or equity (continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in / first-out method. The inventory consists of pipes, fittings and pumps used in the operation of the District.

At various times, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted assets

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

5. Capital assets

All purchased capital assets, which include property, plant, and equipment, are carried at cost or estimated historical cost. Contributed capital assets are valued at estimated fair market value on the date received. Capital assets are defined as items with an initial, individual cost of more than \$2,000 and an expected life of more than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Interest incurred during the construction phase of capital assets, if directly related to the construction, is included as part of the capitalized amount of the assets constructed. There was no interest capitalized during the current year.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water system	40-50
Buildings	15-40
Equipment	7-8
Vehicles	5
Office equipment	5

6. Compensated absences

The District's has a policy regarding an allowance for vacation leave and sick leave. The liability for compensated absences included in the financial statement liabilities was \$84,808 at December 31, 2005 and \$80,175 at December 31, 2004.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1-D. Assets, liabilities, and net assets or equity (continued)

7. Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

8. Equity

The difference between total assets and total liabilities represents equity or net assets. Net assets presented in the statement of net assets are subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

9. Comparative data/reclassifications

Comparative data are presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A. Budgetary information

An annual operating budget is adopted by the District's board of trustees, on a basis consistent with generally accepted accounting principles, and as prescribed by state regulation. The budget is adopted prior to the beginning of the year to which it applies after a public hearing has been held. Subsequent amendments to the operating budget may be made after a public hearing.

A capital budget is also adopted by the board of trustees which identifies planned capital asset additions and requirements for long-term debt service principal payments, as well as the plan for financing these items.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of December 31, 2005 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 305
Demand deposits - checking	296,946
Investments - PTIF	<u>3,895,038</u>
Total cash and investments	<u>\$4,192,289</u>

Cash and investments listed above are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$2,414,324
Restricted cash and cash equivalents	<u>1,777,966</u>
Total cash and cash equivalents	<u>\$4,192,289</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. Maturities of investments in PTIF are less than one year and the balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The District maintains monies not immediately needed for expenditure in the PTIF.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The District maintains no investment policy containing any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The District's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the District are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. Of the District's demand deposits, \$100,000 is covered by FDIC insurance;

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the District's policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

Accounts not expected to be collected within one year are captioned as non-current receivables. Accounts receivable are shown on the financial statements as follows:

	Current Year	Previous Year
Taxes receivable	\$485,944	21,300
Current customer accounts receivable	170,527	173,904
Non-current accounts receivable	<u>43,362</u>	<u>60,845</u>
Net accounts receivable	<u>\$699,832</u>	<u>256,048</u>

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-C. Capital Assets

A summary of capital asset activity is listed below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 330,947	-	-	330,947
Water rights / stock	178,129	-	-	178,129
Construction in progress	<u>253,191</u>	<u>870,219</u>	<u>-</u>	<u>1,123,410</u>
Total capital assets, not depreciated	<u>762,267</u>	<u>870,219</u>	<u>-</u>	<u>1,632,486</u>
Capital assets, being depreciated:				
Water system	14,159,248	28,268	-	14,187,517
Sewer system	9,737,194	-	-	9,737,194
Buildings and structures	355,658	-	-	355,658
Equipment	<u>907,373</u>	<u>332,768</u>	<u>171,129</u>	<u>1,069,013</u>
Total capital assets being depreciated	<u>25,159,473</u>	<u>361,037</u>	<u>171,129</u>	<u>25,349,381</u>
Less accumulated depreciation for:				
Water system	6,887,740	361,327	-	7,249,066
Sewer system	2,671,400	200,195	-	2,871,595
Buildings and structures	106,325	8,891	-	115,216
Equipment	<u>403,589</u>	<u>64,980</u>	<u>27,194</u>	<u>441,376</u>
Total accumulated depreciation	<u>10,069,054</u>	<u>635,393</u>	<u>27,194</u>	<u>10,677,253</u>
Capital assets being depreciated, net	<u>15,090,419</u>	<u>(274,356)</u>	<u>143,935</u>	<u>14,672,128</u>
Capital assets, net	<u>\$15,852,687</u>	<u>595,862</u>	<u>143,935</u>	<u>16,304,614</u>

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate 12/31/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2005</u>	<u>Due Within One Year</u>
Water Quality Revenue:						
1997 - matures 2018	\$ 391,000	-	\$ 277,000	-	19,000	258,000
Community Impact Board Revenue:						
Water:						
1985 - 383199 matures 2008	350,000	-	56,000	-	14,000	42,000
1996 - B5152 matures 2017	126,640	2.50	90,000	-	6,000	84,000
1999 - B5227 matures 2020	267,500	2.00	222,000	-	12,000	210,000
2004 - matures 2025	1,281,000	-	1,281,000	-	-	1,281,000
Sewer:						
1992 - M5087 matures 2014	368,150	-	180,000	-	18,000	162,000
1997 - B5174 matures 2018	281,962	3.00	215,000	-	13,000	202,000
2001 - M5284 matures 2023	350,000	-	333,000	-	17,000	316,000
2003 - matures 2024	150,000	2.50	150,000	-	6,000	144,000
General obligation bonds:						
1985 - matures 2007	5,000,000	9.35	1,135,000	-	450,000	685,000
Total long-term liabilities			<u>\$3,939,000</u>	<u>-</u>	<u>555,000</u>	<u>3,384,000</u>
					<u>664,000</u>	

Bonds were issued to finance the construction of the water and sewer systems. All revenues of the water and sewer operations are pledged on the respective water and sewer revenue bonds.

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$664,000	81,035	745,035
2007	359,000	33,080	392,080
2008	171,000	14,100	185,100
2009	160,000	13,120	173,120
2010	161,000	12,090	173,090
2011-2015	799,000	44,340	843,340
2016-2020	659,000	16,205	675,205
2021-2025	<u>411,000</u>	<u>2,250</u>	<u>413,250</u>
Total	<u>\$3,384,000</u>	<u>216,220</u>	<u>3600,220</u>

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-E. Restricted assets

Certain amounts have been restricted as to usage, generally for debt service, and construction and acquisition of capital assets. Reservations of net assets have been made in similar amounts. A list of restricted assets follows:

	Current <u>Year</u>	Previous <u>Year</u>
Impact - water	-	537,562
Impact - sewer	-	351,362
Debt service - water	\$ 247,000	140,150
Debt service - sewer	210,000	110,795
Debt service - general obligation	<u>1,263,012</u>	<u>1,115,872</u>
 Total restricted assets	 <u>\$1,720,012</u>	 <u>2,255,741</u>

NOTE 4 - OTHER INFORMATION

4-A. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The District is required to contribute a percent of covered salary to the following system: 11.09% to the Noncontributory System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The District's contributions for the year ending December 31, 2005, 2004, and 2003 for the Noncontributory System were \$49,922, \$39,793, and \$23,985, respectively. The contributions were equal to the required contributions for each year.

IRC Code Section 401k Plan:

The District participates in a 401k plan offered through the Utah State Retirement Systems. The District's contribution for the year ended December 31, 2005, amounted to \$17,052.

Ashley Valley Water & Sewer Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

4-B. Commitments and Contingencies

The Jensen Unit of the Central Utah Project was planned to develop and annual water supply of 18,000 acre-feet for municipal and industrial purposes. Project facilities of the Uintah Water Conservancy District have been completed so as to develop 6,000 acre-feet of municipal and industrial water annually. Due to reduction in the demand for municipal and industrial water, the Uintah Water Conservancy District and the United States negotiated an Amendatory Contract to limit the municipal and industrial repayment obligation of Uintah Water Conservancy District to 2,000 acre-feet annually. However, the proposed Amendatory Repayment Contract was approved by the U.S. Congress.

In 1977, Vernal City petitioned for 12,000 acre feet of water from the Jensen Unit of the Central Utah Project. As part of the water separation agreement in 1981, Ashley Valley Water and Sewer Improvement District agreed to accept the transfer of 4,000 acre-feet from Vernal City to the District. This transfer was approved by the Uintah Water Conservancy District and U.S. Bureau of Reclamation. As a result of the proposed amendment described above, the Uintah Water Conservancy District was billed by the Bureau of Reclamation on the reduced basis of 2,000 annual acre-feet described above. The District was then billed based on 500 acre-feet of the 2,000 acre-feet basis billed to the Uintah Water Conservancy District.

MCNEIL DUNCAN
Certified Public Accountant
1160 South State Street #220 Orem, Utah 84097

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INDEPENDENT AUDITOR'S REPORT ON STATE OF UTAH LEGAL COMPLIANCE

Board of Trustees
Ashley Valley Water and Sewer Improvement District

I have audited the general purpose financial statements of Ashley Valley Water and Sewer Improvement District (the District) for the year ended December 31, 2005 and have issued my report thereon dated June 19, 2006. As part of my audit, I have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah:

The District received no major state assistance.

The District received the following nonmajor grants:

State Flood Assistance

My audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah's Legal Compliance Audit Guide including:

Public Debt	Cash Management	Purchasing Requirements
Budgetary Compliance	Truth in Taxation & Property Tax Limitations	
Special Districts	Impact and Connect fees	Other General Compliance Issues

The management of the District is responsible for the District's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In my opinion, the District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; for the year ended December 31, 2005.

McNeil Duncan
June 19, 2006

MCNEIL DUNCAN
Certified Public Accountant
1160 South State Street #220 Orem, Utah 84097

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Report of Independent Certified Public Accountant on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Trustees
Ashley Valley Water and Sewer Improvement District

I have audited the financial statements of Ashley Valley Water and Sewer Improvement District (the District) for the year ended December 31, 2005, and have issued my report thereon dated June 19, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing and opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such and opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of management and the District's board of trustees. However, this report is a matter of public record and its distribution is not limited.

McNeil Duncan
Certified Public Accountant

June 19, 2006

MCNEIL DUNCAN
Certified Public Accountant

1160 South State Street #220 Orem, Utah 84057

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MANAGEMENT LETTER

Board of Trustees
Ashley Valley Water and Sewer Improvement District
Vernal, Utah

In planning and performing my audit of the financial statements of Ashley Valley Water and Sewer Improvement District (the District) for the year ended December 31, 2005, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Current Year Findings and Recommendations

There are no current year findings or recommendations.

Prior Year Findings and Recommendations

There were no current year findings or recommendations in the prior year.

Management's response to management letter

No response is necessary.

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